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THE MARKET FOR DATASTREAM SERVICES IN THE U.S.

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JANUARY 1981

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ABSTRACT

This report analyzes and addresses the factors that would have a major impact on the marketability of the dataSTREAM financial service in the United States. Research indicates that there is a growing interest in foreign investments among U.S. firms. This interest is expected to produce growth from the current $3.4 billion per year to approximately $15 billion in 1985. Special attention is given to the advantages of offering the service in a bundled or unbundled fashion, along with subscription projections for both methods. Currently the dataSTREAM service is unrivalled in depth, comprehensiveness and accessibility.

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January 1981

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1 INTRODUCTION

I INTRODUCTION

A. PURPOSE

- The purpose of this study is to determine the market potential for dataSTREAM's service in the United States. Further, the study provides a description of the nature, size, segmentation and concentration of the market, and recommends ways to introduce the dataSTREAM service into the United States.

- The recommendations include, but are not limited to, joint ventures with an existing U.S.-based information supplier and a remote computer service company.

- Another goal of the study was to ascertain whether there is a market for dataSTREAM's service and to provide the research findings supporting that conclusion together with an intelligent estimate of the number of years required before another look should be taken.

B. METHODOLOGY

- To accomplish these objectives, the dataSTREAM service was introduced to a significant number of key individuals with decision-making ability concerning

investments, primarily in foreign securities, and some with investment activities in domestic securities.

- Since the dataSTREAM service is so much more comprehensive than most comparable U.S. services, a cross-section of individuals was selected from both the brokerage and asset management communities.

- The introduction of the dataSTREAM service was accomplished by seminars that provided a simulated live product demonstration lasting approximately two hours. The interest on the part of the respondents was demonstrated by the fact that almost all in attendance stayed for the entire session, which is quite remarkable for members of the U.S. brokerage community.

- Each person attending the seminar completed a questionnaire, a copy of which is contained in Appendix C.

- After an analysis of completed seminar questionnaires, those respondents that appeared to be most informative were interviewed afterwards in their offices.

- The interview approach was not unlike selling a new product into a new market.

  - After educating the group as to the features of the dataSTREAM service, the subjects were probed to determine if their interest was genuine. They were then asked if they would like to have a data-STREAM representative call on them.

  - The only missing ingredient was the existence of a U.S.-based service and a sales contract. Nevertheless, two of the subjects indicated they were ready to subscribe, provided the price was reasonable.

II EXECUTIVE SUMMARY

II EXECUTIVE SUMMARY

A. KEY FINDINGS

- U.S. investments in foreign securities have increased sharply in recent years, due both to currency fluctuations and the soaring price of gold.

- Continued growth is expected to be sustained for the next five years as corporate pension funds' participation in foreign securities increases.

- Investments in foreign securities are expected to approximate $15 billion in 1985, compared with $3.4 billion in 1980, a 4.4-fold increase in five years.

- dataSTREAM's information service on foreign securities is vastly superior to any other U.S. source on foreign securities.

- All of those in attendance indicated that the time was ripe for dataSTREAM to market its service in the United States.

- The primary areas of interest are financial analysis of foreign companies, bond analysis reports and portfolio evaluation.

- Two countries of considerable interest to Americans (Australia and South Africa) are not covered by the dataSTREAM service.

- The market for the dataSTREAM service, offered on a bundled basis, is expected to approximate 16 users in 1981 and 46 users by 1985.

- On an unbundled basis, the market for the dataSTREAM service is expected to approximate 78 users in 1981 and 191 users by 1985.

- dataSTREAM is advised to enter the U.S. market with an unbundled offering to gain a dominant share of what will become a large, lucrative market. There is no viable competitive offering on the immediate horizon.

B. ASSUMPTIONS

1. BUNDLED OFFERING

- In the body of this report, the terms bundled and unbundled are used frequently. Bundled refers to the way the dataSTREAM service is currently marketed in Europe according to INPUT's understanding.

  - The service includes company analysis, bond analysis, portfolio evaluation and economic research via a single terminal.

  - All terminal users have access to all these functions and are required to pay for all of them whether they use them or not.

2. UNBUNDLED OFFERING

- Unbundled means providing users with the option of selecting which functions or data they would like to subscribe to and pay for.

  - For example, a bond trader or dealer would have access only to bond analysis while a foreign equity trader would have access only to foreign equities pricing information.

- Each user would have his own terminal (providing only the information he requires) and would only have to pay for that part of the service to which he subscribed.

- Included in the concept of unbundling is the selling of data in machine-readable form to those who would like to produce their own reports either internally or via a remote computer services company.

3. FORECAST ASSUMPTIONS

- Market penetration and revenue forecasts are based on the assumption that dataSTREAM elects to preempt the market by making a decision to enter the U.S. in early 1981.

4. NEED FOR AMERICANIZATION OF dataSTREAM

- INPUT believes the dataSTREAM service needs to be "Americanized" so that it appears familiar to Americans. Included in the financial jargon of Americans are many key ratios, income statement and balance sheet accounts as well as a specific way of calculating and displaying them.

  - It appears necessary that some cosmetic changes be made to make the service consistent with American practices.

5. METHOD OF PAYMENT

- Hard dollars as opposed to commissions were assumed to be the method of payment so that a true measure of interest could be discerned.

- There are those who would be interested in subscribing to the dataSTREAM service if they thought they would not have to pay for it; however, with discounts on institutional trades now in excess of 70% of the pre-May 1975 fixed rates, soft dollars have become almost as difficult to deliver as hard dollars.

- In addition, with abuses in the use of soft dollars and the passage of the "Employment Retirement Investors Securities Act of 1974," the SEC has been scrutinizing the use of commissions very closely. The money manager has a fiduciary responsibility to use his client's commissions for his client's benefit, not for his own benefit.

C. U.S. POLICY TOWARD FOREIGN INVESTMENTS

- Investments in foreign securities have increased dramatically in the past five years. Informed observers estimate that pension fund investments in foreign securities are growing at 100% per year.

- The U.S. government's concern about the outflow of capital appears to be minimal at present. The interest equalization tax has not been an inhibiting factor in foreign investments for the past 10 years and will probably not be reinstated for some time.

- However, it is an area that requires continual study because its impact has been quite dramatic in the past. INPUT has assumed that the current policy toward acquiring foreign assets will not materially change under the new conservative, pro-business Reagan administration.

D. CURRENCY FLUCTUATIONS

- An important contributing factor to the interest Americans have in foreign securities has been a result of dramatic currency fluctuations. INPUT has assumed that currencies will continue to be allowed to float freely and that the U.S. dollar will not be returned to the gold standard.

- If the dollar became convertible into gold, and the relationship between currencies fixed, then the outlook for investing in foreign securities would be affected significantly. Such events do, however, appear unlikely.

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III MARKETS

III MARKETS

- The market for dataSTREAM's service in the U.S. is very narrow and highly specialized. It can be divided into two distinct groups, the brokerage industry and the asset management community.

- The two areas have been clearly separated by the "Glass Steagall Act" which prohibits commercial banks, savings and loans and insurance companies from acting as brokers or dealers in public equities.

- Likewise, asset management functions have been separated from brokerage companies by SEC regulations. Many brokerage firms have asset management subsidiaries, but they either have been spun off or operate independently of the affiliated brokerage firm.

  - This separation contrasts with European firms (like German and Swiss banks) that perform both commercial banking and brokerage functions.

A. BROKERAGE SEGMENT

- There are three functions in brokerage firms that demonstrate a need for the dataSTREAM service.

1. FOREIGN EQUITY TRADERS

- Foreign equity traders in major New York firms such as Merrill Lynch, Bache, Drexel Burnham, Carl Marks, and Arnhold and S. Bleichroeder, Inc., are the primary market-makers in foreign securities. They act both as agents (buying securities for others for a commission) and principals (taking positions in securities).

- Some firms may have positions in foreign securities that easily exceed $10 million.

- The dataSTREAM service is of primary interest to this group as a source of worldwide prices on foreign securities. The current approach is to pull off lists of prices over a teletype provided by Reuters.

- The dataSTREAM service, providing prices in response to keyboard entries, is vastly superior.

  - Closing prices on European markets are an essential requirement.

- There are less than 20 firms active in making markets in foreign equities.

2. EUROBOND DEALERS

- Eurobond dealers at firms like Solomon Brothers, Merrill Lynch and Goldman Sachs need the dataSTREAM bond analysis reports. Many of the reports (such as sinking-fund schedules) are seen to be quite valuable and are not available from Reuters or any other automated source.

- There are approximately 20 firms that are active in Eurobonds.

3. FOREIGN RESEARCH

- Foreign research departments use the company analysis part of dataSTREAM to obtain up-to-date fundamental data on the companies they follow.

- The firms that use this capability include Drexel Burnham, Merrill Lynch and Arnhold and S. Bleichroeder.

- There are less than five brokerage firms that have significant foreign research departments.

B. ASSET MANAGEMENT

- The asset management community is made up primarily of trust departments of major banks, insurance companies, mutual fund management companies, investment counselors and foundations. Those representing an immediate market for dataSTREAM are some New York banks (those without London Eurobond fund managers), foreign equity fund managers, and sponsors of foreign index funds.

- There are about seven New York banks that have significant Eurobonds under management that need dataSTREAM's portfolio evaluation system.

- Although the need for a U.S. service for those banks with London branches was questioned, it is felt that the dataSTREAM service will be required in both New York and London for those with significant Eurobonds under management.

- New York management would like to have access on the markets to reduce the information advantage that the London operation would have if the service was only in London.

- In some cases, banks have domestic Eurobond fund managers that actually compete with their London affiliates. It is felt that if the dataSTREAM service were available in the U.S., much of the investment management's functions would expand and shift to the U.S. The primary reason management is not located in New York is that they lack information , which dataSTREAM could provide.

- Currently, there is only one firm that is known to offer a foreign index fund: State Street in Boston. The primary requirement for indexing is pricing and capital changes information so that the fund can be kept in balance with the index selected.

- There are about 10 mutual fund management companies with significant funds in foreign securities, including Putnam, Keystone, Scudder, T. Rowe Price and Vance Sanders Eaton Howard. Their requirement would be for most of the features contained in the dataSTREAM service.

- There is increasing interest in foreign securities by insurance companies such as Prudential and Aetna. Aetna is in the process of putting together a department to begin investing in foreign securities in a major way in late 1981. Like the mutual funds, the entire dataSTREAM package would be required.

C. SIZE REQUIREMENTS FOR SUBSCRIPTION

- Although there are some 40-50 firms involved in foreign securities, many are quite small and have not made a commitment to investing in foreign markets on a sustained basis. Listed below are the parameters that appear necessary for a firm to be large enough to justify a dataSTREAM service.

  - Eurobond fund management operations must have at least two managers and $500 million under management.

- Foreign equity trading departments must have at least four traders and be a true market-maker by taking positions.

- Eurobond dealers must be large enough to have a pretax profit of $1 million per year.

- Foreign research departments must have at least two analysts.

- Mutual funds and insurance companies must have at least $200 million invested in foreign equities.

D. MARKET GROWTH PROJECTIONS

- There is extremely little published information on the amount of U.S. investment in foreign securities today or in recent history.

- Surveys conducted by the Money Market Directory, covering 55% of all corporate and foundation assets in the U.S., indicate that foreign equities amount to about $542 million.

- Among government funds (representing 88% of total government funds), foreign equities amounted to $329 million.

- By extrapolation, the total amount invested in foreign equities would be approximately $1.4 billion in 1980. Foreign investments in fixed income securities are not broken out separately by the Money Market Directory.

- From discussions with Eurobond traders and international money managers, the total fixed income investment in foreign securities is slightly in excess of $2 billion.

- A single pension fund, the United Nations Joint Staff Pension Fund, with total assets of $1.825 billion, probably accounts for a large percentage of the total investment in foreign securities.

- The area that seems to be growing the most rapidly in investing in foreign securities is corporate pension funds. Knowledgeable sources estimate this part of the market is growing at 100% per year.

- Based on somewhat limited research and the assumptions that were made about foreign investments and currency fluctuations, Exhibit III-1 provides a rough estimate of the active investment in foreign securities over the next five years.

- With the introduction of dataSTREAM into the U.S., interest and investments in foreign securities would be stimulated considerably. The degree to which these market estimates could be affected cannot be forecasted, but even a doubling of these figures is conceivable.

- The potential for dataSTREAM's service provided on a bundled basis is shown in Exhibit III-2, and on an unbundled basis in Exhibit III-3.

- Exhibit III-4 illustrates realizable revenue by type of subscriber.

EXHIBIT III-1

ESTIMATED ACTIVE INVESTMENTS IN FOREIGN SECURITIES

TYPE OF SECURITY	INVESTMENTS ($ THOUSANDS)				
	1981	1982	1983	1984	1985
EQUITIES	$2,500,000	$4,000,000	$ 5,500,000	$ 6,500,000	$ 8,000,000
FIXED INCOME	4,000,000	4,800,000	5,500,000	6,000,000	6,800,000
TOTAL	$6,500,000	$8,800,000	$11,000,000	$12,500,000	$14,800,000

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EXHIBIT III-2

MARKET ESTIMATE FOR BUNDLED dataSTREAM SERVICE

TYPE OF SUBSCRIBERS	NUMBER OF SUBSCRIBERS				
	1981	1982	1983	1984	1985
EQUITY	10	16	22	26	32
FIXED INCOME	6	8	10	12	14
TOTAL NUMBER OF SUBSCRIBERS	16	24	32	38	46
REVENUE AVAILABLE	$640,000	$960,000	$1,280,000	$1,520,000	$1,840,000

EXHIBIT III-3

MARKET ESTIMATE FOR UNBUNDLED SERVICE

TYPE OF SUBSCRIBERS	NUMBER OF SUBSCRIBERS				
	1981	1982	1983	1984	1985
Foreign Equities Trading	8	10	10	12	12
Eurobond Dealer	20	22	24	26	28
Portfolio Evaluation	20	30	45	55	65
Data Subscribers	15	18	24	28	32
Financial Analysis Of Foreign Companies	10	15	24	28	32
Financial Analysis Of U.S. Companies	5	10	15	18	22
TOTAL	78	105	142	167	191

EXHIBIT III-4

REALIZABLE REVENUE

TYPE OF SUBSCRIBERS	REVENUE ($ THOUSAND)				
	1981	1982	1983	1984	1985
Foreign Equities Trading @ $18,000/Year	$ 144	$ 180	$ 180	$ 210	$ 210
Eurobond Dealers @ $12,000/Year	240	260	280	310	330
Portfolio Evaluation @ $18,000/Year	360	540	810	990	1,170
Data Subscribers @ $10,000/Year	150	180	240	280	320
Financial Analysis Of Foreign Companies @ $18,000/Year	180	270	430	500	570
Financial Analysis Of U.S. Companies @ $12,000/Year	60	120	180	210	250
TOTAL	$1,130	$1,550	$2,120	$2,500	$2,850

IV MARKET TEST OF dataSTREAM SERVICE

IV MARKET TEST OF dataSTREAM SERVICE

A. KEY FINDINGS

1. COUNTRIES OF INTEREST

- The primary countries for which data are of interest to those attending the dataSTREAM seminar are those in Europe and Japan. Responses are summarized in Exhibit IV-1.

- The other countries and areas mentioned, ordered by frequency, are as follows:

-	Australia	8 mentions
-	South Africa	4 mentions
-	Canada	2 mentions
-	South America	1 mention
-	Switzerland	1 mention
-	Middle East	1 mention

EXHIBIT IV-1

LEVEL OF INTEREST BY COUNTRY

COUNTRY	NUMBER OF RESPONDENTS		
	HEAVY INTEREST	MODERATE INTEREST	NO INTEREST
UNITED KINGDOM	6	12	11
GERMANY	6	10	13
HOLLAND	4	10	15
JAPAN	5	12	14
HONG KONG	5	9	15

- Coverage of countries in the dataSTREAM service appears to be adequate, based on the interest shown by the attendees. Australia and South Africa are of growing importance.

  - Interest in Australia will probably continue to grow for the foreseeable future because of its important role both in energy reserves and as a source of raw materials.

  - Interest in South Africa is quite volatile, fluctuating with interest in gold and gold shares.

2. INVESTMENT IN FOREIGN SECURITIES

- The amount of funds or activities concerned with foreign securities represented by those attending the dataSTREAM presentation ranged from nil to 100%. The distribution of the responses is shown in Exhibit IV-2.

- The individuals that indicated that 100% of their activities or funds were in foreign securities were specialists either in foreign equities trading, pension fund consulting, or dealing in Eurobonds.

  - These individuals are not representative of the market.

  - Although their departments or the functions they perform are almost entirely involved with foreign securities, they may represent only a small part of their firm's overall activities.

- Of the typical American brokerage or asset management firms, such as Goldman Sachs, Morgan Guaranty or Eaton Howard Vance Sanders, approximately 2-3% of their activities or funds are concerned with foreign securities.

- Growth in foreign securities is indicated by the number of firms answering the question concerned with market dynamics, as shown in Exhibit IV-3.

EXHIBIT IV-2

RATIO OF FOREIGN SECURITIES

TO TOTAL INVESTMENT REPRESENTED BY ATTENDEES

NUMBER OF ATTENDEES	PERCENTAGE RANGE
11	0- 5%
2	5- 10%
0	11- 20%
3	21- 30%
3	31- 50%
2	60- 90%
3	91-100%

EXHIBIT IV-3

GROWTH IN FOREIGN SECURITY ACTIVITY

NUMBER OF FIRMS	MARKET CHARACTERISTIC
19 (76%)	INCREASING
1 (4%)	DECREASING
5 (20%)	STATIC

- In examining the total growth of U.S. investment in foreign securities, the key to future growth is in which groups are moving into foreign securities and what their investment objectives are.

- The group that is apparently showing the most rapid growth is pension funds. Treasurers of corporations that oversee the investment of pension fund assets are particularly aware of currency fluctuations and the effect of those fluctuations on corporate assets.

  - To avoid currency losses, treasurers protect themselves by hedging.

  - The typical treasurer has not kept pace with inflation with investment of the firm's pension fund assets. Most bank trust departments have not performed as well as the Consumer Price Index or the Standard and Poor's 500.

- Neither have the pension fund assets been protected against the erosion in the dollar, because the majority of funds have been concentrated in U.S. securities.

- The trend in the U.S. is for corporations to manage pension fund investments internally and to rely less on outside managers.

  - This trend may explain part of the increased interest in foreign securities for pension fund assets.

- Pension fund objectives are typically growth-oriented, with the specific minimum growth rate being the actuarial rate of around 5-7%. Growth-oriented investment leads one to select a relatively larger percentage of equities to keep pace with inflation.

- Increasing investment by pension funds in foreign securities should increase investment in foreign equities considerably because of the greater awareness that treasurers have of currency risks.

- Some pension fund consultants have pointed out the attractiveness of foreign securities to improve returns without corresponding increases in risk.

- Risk is reduced by increased diversification from investment in securities that behave differently from U.S. securities.

- A portfolio concentrated strictly in U.S. securities cannot avoid the risk of the U.S. market because of the large portion of each U.S. stock's behavior that is attributable to the U.S. market (approximately 50%).

- Some pension consultants have advocated investment in foreign securities that provide diversification against U.S. market fluctuations, which reduces risk without corresponding reductions in returns.

- Increasing interest in foreign securities is shown in Exhibit IV-4 by the distribution of funds or activities in 1985.

- The greatest number of responses by percentage in 1980 was 11 under 0-5%. In 1985, the largest number will be seven in the range of 11-20%.

- The responses most typical of the market called for a doubling to a tripling of the market in the next five years.

- Those specialists that were 100% involved in foreign securities in 1980 will also be 100% in 1985 (although not deemed to be representative of the overall U.S. market).

3. COMPARISON OF ALTERNATIVES

- The primary sources for information on foreign securities are Reuters, Exstat (in machine-readable form) and Interactive Data.

EXHIBIT IV-4

INTEREST IN FOREIGN SECURITIES

BY EXPECTED 1985 DISTRIBUTION OF FUNDS

NUMBER OF ATTENDEES	PERCENTAGE RANGE
1	0- 5%
3	6- 10%
7	11- 20%
0	21- 30%
5	31- 50%
3	60- 90%
3	91-100%

- Perhaps one of the most encouraging findings was that the dataSTREAM service is considered overwhelmingly superior to existing sources on foreign securities. Coverage of U.S. securities was thought to be comparable to existing U.S. sources.

- The most heavily used features were financial analysis of non-U.S. companies, indicated by 22 firms, and portfolio evaluation, indicated by 15 firms.

- Having only foreign prices for portfolio evaluations appears sufficient.

4. THE TIME IS RIPE

- Every firm except one answered affirmatively to the question concerning whether the time was ripe for dataSTREAM to enter the U.S. market. The firm that was negative provides information on foreign securities as a competitor.

  - dataSTREAM's entry into the U.S. market would affect this respondent negatively.

  - Excluding that response, the results were unanimously in favor of dataSTREAM's entering the U.S. market now!

B. SHORTCOMINGS ARE MODEST

- Australia and South Africa would need to be added for the U.S. market in due course.

- Several money managers mentioned performance measurements that took into account changes based on currency and changes based on share prices (excluding currency change) as a desirable feature to have with the portfolio evaluation service.

- Coverage of U.S. companies needs to be broader than the current 2,000, and 10 years of history is desirable.

C. PRICING

- Most responses appeared to be unsure of what the appropriate structure or pricing level should be.

  - Pricing of $30,000 to $40,000 per year appeared to be reasonable to many respondents.

V RECOMMENDED PRICING AND PACKAGING STRATEGY

V RECOMMENDED PRICING AND PACKAGING STRATEGY

- dataSTREAM faces the problem common to those relatively unknown firms wanting to introduce a new product into a new market. The market for U.S. information services is further characterized as being very price sensitive, with a very restricted availability of funds for services that are considered desirable but not essential.

- Many of the firms interviewed characterized the market as "a chicken-and-egg situation" in which a loss leader type of pricing approach would be most appropriate.

- Clearly, the primary initial problem is one of market penetration. After there have been several successful installations with users that see the value of the service, and the name dataSTREAM becomes a symbol of quality, sales resistance should greatly diminish.

- There are enough prospects seriously interested in subscribing to obtain several key installations soon after the service is introduced. The question then remains of how to price and package the service to obtain effective market penetration during the next five years.

A. BUNDLED SERVICE

- Market strategy and pricing are closely related to how the service is offered. If the service is available only on a bundled basis, then the service will only be attractive to the larger institutions and brokers/dealers that can afford to pay $40,000 to $50,000 to keep pace with the leaders.

- As discussed in the section relating to market projections, the available market is for approximately 46 systems over the next five years. Marketing would be restricted to key large brokerage firms such as Morgan Stanley, Goldman Sachs, Merrill Lynch and Soloman Brothers and the trust departments of Morgan Guaranty, Fiduciary Trust, Citibank, Banker's Trust and Chase Manhattan Bank.

- Penetration of the brokerage accounts would be much quicker because other brokers would subscribe in order to eliminate the competitive advantage enjoyed by the first few to sign up for the service.

- To encourage new users to subscribe, the service should be offered on a short-term lease at a flat fee of $40,000 to $50,000 per year.

- Alternately, the service could be offered with pricing based on usage, with substantial discounts on heavy usage. Although market penetration on a bundled basis would be more limited, so would the exposure to costs.

B. UNBUNDLED SERVICE

- Unbundling the service would allow dataSTREAM to obtain significantly greater market penetration.

- Not only would the realizable revenue be about 50% greater, but the installations would be less subject to cancellation in the event of a bad year.

  - It is much more difficult for a company to cancel three terminals used in three different departments, with each application cost justified, than to cancel a single terminal in which the user is only accessing part of the system and paying for the parts he is not using.

- In addition, providing each user with only the functions he requires at a reduced price is much easier to sell than requiring every user to subscribe to the entire package.

- The primary modules and the pricing level considerations appropriate for each are listed below.

- The derivation of the recommended monthly amounts is based on several factors:

  - The amount each department thought reasonable to pay for the specific package in which it was interested.

  - The amount affordable, given budgetary considerations.

  - The amount to remain competitive, with the alternative of hiring a competent assistant.

- Even though in some cases the dataSTREAM service would be used instead of Reuters for pricing, Reuters would still be needed for news and foreign currency information. Replacement of the monthly $2,000 Reuters charges was not a factor in determining the above charges.

I. FOREIGN EQUITIES

- A foreign equity brokerage traders' package would provide closing markets on institutional equities in European countries, Japan, South Africa and Australia.

- The head trader would have a terminal near his desk, with a keyboard that would give him access to up-to-date prices upon request.

- The service would not have to be available after 12:00 a.m. Eastern Standard Time.

- Recommended price is $1,500 to $2,000 per month.

2. BOND DEALERS

- A Eurobond package should be made available with current pricing information and reports on yields, sinking-fund schedules, quality ratings and amounts of issue outstanding on bonds and groups of bonds.

- In addition, the service should provide screening capability to find bonds satisfying certain criteria. This service would be aimed at major dealers in Eurobonds who make primary markets and provide advice to their institutional clients.

- Since most of the activity takes place after 2:00 p.m. Eastern Standard Time, access to this system needs to be available until 5:00 p.m.

- Recommended price is $1,000 per month.

3. PORTFOLIO EVALUATION

- Portfolio evaluation would provide money managers with overnight evaluations of their foreign securities, including hard copy with costs identifiable both in terms of share prices and currency values.

- Performance measurement would break out changes in assets to changes in the appropriate market index, changes in currency and changes in share prices for both principal and income.

- Recommended price is $1,500 per month.

4. FINANCIAL ANALYSIS

- Financial analysis of foreign companies for brokerage, money management research departments and equity portfolio managers is a viable service.

- Reports would include historical income statement and balance sheet data, with the ability to select or screen for companies based on specific criteria.

- Recommended price is $1,500 per month.

5. MACHINE-READABLE DATA

- Machine-readable data on magnetic tape should be made available to firms that wanted to produce their own custom reports on in-house systems for company fundamental data, equities pricing history and bond pricing history.

- Alternately, dataSTREAM could provide the data to a remote computer services vendor who would update it and make it available to subscribers of dataSTREAM data.

- Recommended price is $10,000 per year (minimum).

C. COMBINATION OF FUNCTIONS

- Portfolio evaluation and financial analysis could be offered together over a single terminal to provide service to portfolio managers and research departments.

VI SUMMARY AND CONCLUSIONS

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A. SUMMARY

- U.S. investments in foreign securities have increased sharply in recent years due to currency fluctuations and the soaring price of gold. Continued growth is expected to be sustained over the next five years as corporate pension fund activity in foreign securities increases.

  - Investments in foreign securities are estimated to reach $15 billion in 1985, compared with $3.4 billion in 1980 - a 4.4-fold increase.

- dataSTREAM's information service on foreign securities is far superior to any other U.S. source on foreign securities. One hundred percent of the persons in attendance at the dataSTREAM product presentations who were objective, indicated that the time was ripe for dataSTREAM to market its service in the United States.

- The primary areas of interest are financial analysis of foreign companies, bond analysis reports and portfolio evaluation of foreign securities holdings.

- Two countries of considerable interest to Americans, Australia and South Africa, are not covered in the dataSTREAM service.

- The market for dataSTREAM service in the U.S., offered on a bundled basis, is estimated to approximate 16 terminals in 1981 and 46 in 1985.

- On an unbundled basis, the market for dataSTREAM service is estimated to approximate 78 terminals ($1.1 million) in 1981 and 191 terminals ($2.850 million) by 1985.

B. CONCLUSIONS

- dataSTREAM has the right product at the right time for a small but rapidly expanding market in the U.S.

- To secure a dominant position in what will become a large and profitable business, dataSTREAM is advised to introduce its service into the U.S. on an unbundled basis as quickly as possible. An unbundled service to handle most of the user community's needs for foreign securities information on a step-by-step basis would provide dataSTREAM with a dominant share of the market.

- Competition would be discouraged from pursuing market segments that are not being properly addressed.

- It is recommended that dataSTREAM unbundle and price its service as discussed, add Australia and South Africa, and introduce the service into the U.S. as early as possible in 1981.

VII RECOMMENDATIONS FOR FUTURE STUDY

VII RECOMMENDATIONS FOR FUTURE STUDY

- In the course of the research for this study, INPUT has identified several areas that should be considered for further evaluation. They are briefly identified in the following paragraphs.

A. CORPORATE PENSION FUND MARKET

- Increased investment of corporate pension funds in foreign securities has occurred in the past several years. Questions that should be addressed include:

  - Current market size and estimates for the future, to be verified by survey.

  - Reasons for increased activity in foreign securities.

  - Information needs of pension fund administrators on foreign securities.

B. UNBUNDLING

- INPUT has recommended that dataSTREAM offer an unbundled service with unbundled pricing. Actions to take include:

- Confirm the market forecasts for the different markets for each unbundled service.

- Determine which unbundled service should be the leading edge, or the first one, to be completed to attain dataSTREAM's objectives for effective, immediate market penetration.

- Market test each unbundled offering with the appropriate market segment.

APPENDIX A: U.S. SECURITIES INDUSTRY BACKGROUND

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A. INFORMATION VENDORS

- Firms that currently provide automated information service on securities, together with the type of service provided, are outlined briefly as follows:

  - Reuters

    . Reuters provides teletype news coverage on foreign and domestic companies and foreign currencies, and information on foreign capital markets.

    . At this point, Reuters is dataSTREAM's primary competitor in providing prices for foreign bonds and equities.

    . The service costs approximately $2,000 per month.

  - Dow Jones News Wire

    . The Dow Jones News Wire provides continuous information flow via a "broad tape" printed on a news terminal concerning political, economic, market and company current events.

. Such items as recent quarterly earnings results and half-hourly changes in the Dow Jones average are provided to every major brokerage office and most large asset management companies in the U.S.

. It recently introduced access to news service via dial-up terminals with the capability to interface with personal computers to provide portfolio evaluations on domestic securities.

- Pricing Quote Vendors

. Companies such as General Telephone and Electronics, Quotron and Bunker Ramo provide real-time access to U.S. exchanges and over-the-counter markets.

. Coverage includes approximately 5,000 U.S. securities, U.S. exchange indexes and American depository receipts of foreign securities on such items as daily high, low, last, volume and close.

. These companies have tried to allow brokerage clients to add data concerning customer holdings, tax lot positions and margin information to be available via terminals, but with very limited success.

- Bridge Data

. Bridge Data provides a real-time option and technical service to about 40 major financial institutions from a center based in St. Louis, Missouri.

. Bridge also has a link with ADP Network Services in Ann Arbor, Michigan, that allows the ADP clients access to Bridge's data.

- Monchik-Weber

  - Monchik-Weber provides a real-time options service that is available over Service Bureau Corporation, a wholly owned subsidiary of Control Data Corporation.

  - Monchik's success in the past has been in developing mini-based systems that its clients run in-house.

  - With the recent acquisition of a portfolio system, Monchik seems to be moving more actively into information services.

  - Monchik has an excellent reputation for technical competence in delivering turnkey systems.

- Autex

  - Recently acquired from Itel by Xerox Corporation, Autex provides block trading information to almost every major financial institution and broker block trader in the country.

  - Autex has a highly profitable niche in an area that has been declining because of the diminishing number of brokers.

  - Autex has not yet been very imaginative about adding services to provide its existing client base.

  - It has been trying to find other areas (like rare coins and used machinery) to provide over the same delivery mechanism that connects buyers and sellers.

  - In addition, its software needs to be upgraded to newer hardware to remain viable. Marketing capability appears quite limited.

- Interactive Data Corporation (IDC) (a wholly owned subsidiary of Chase Manhattan)

  . IDC provides a comprehensive range of data and analytical tools to the investment community.

  . It is dataSTREAM's primary competitor with its Exstat service, which is provided to IDC by Extel.

  . IDC's strength is its knowledge of financial applications and breadth of financial data bases.

  . The major negative factor is the extremely high price it charges for its services compared with other remote computer services vendors.

- ADP Network Services (a wholly owned subsidiary of Automatic Data Processing)

  . ADP Network Services provides a broad array of financial data bases and tools to the investment community.

  . ADP's strength is the technical capability of its field marketing as demonstrated by its ability to develop customized applications in a cost effective and timely manner.

  . Its weakness is the lack of financial marketing expertise.

B. MOST LIKELY NEW COMPETITORS

- Because of the enormous cost of developing a data base comparable to dataSTREAM relative to the size of the U.S. market for foreign securities

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information, the potential competitors can be narrowed to a few. The news services, such as Reuters and Dow Jones, are not expected to enhance their offerings dramatically in order to become competitive with dataSTREAM, because it would be a significant departure from their business.

- IDC, which already has significant revenues from access to Exstat and a large, profitable financial services position to protect, is the most likely competitor during the next five years.

  - IDC is understood to have a large development plan requiring a major investment for delivering its services via a distributed data processing (DDP) approach in which many of the financial applications would be run on personal computers.

  - IDC has historical data obtained directly from Extel on foreign companies beyond the 2,000 companies covered in Exstat.

  - IDC has the resources and the marketing knowledge to challenge dataSTREAM in the U.S. if dataSTREAM decides to enter the U.S. market.

  - One of the primary inhibiting factors is that Chase Manhattan Bank controls the purse strings and does not understand IDC's business that well, particularly relative to technological development with DDP.

C. MOST ATTRACTIVE JOINT-VENTURE CANDIDATES

- For distribution of dataSTREAM data to client subscribers in the U.S., ADP Network Services probably represents the best vehicle because they are highly cost effective and do not represent a threat to the value added dataSTREAM service.

- ADP provides its clients access to data bases maintained by third parties such as Compustat, Value Line and Fastock.

- Unlike IDC, ADP does not develop financial products that would compete with the dataSTREAM service.

- ADP's primary business is in developing customized applications that use these financial data bases for its clients.

- ADP does have expertise in working with financial data bases and several clients that are actively looking for foreign data.

• For distribution of the dataSTREAM service, Autex would appear to be a natural partner.

- Its weakness in marketing would have to be overcome by dataSTREAM.

- Autex has the ability to take a single incoming message and separate functions at the customer's location so that one terminal could be available for block trading information and another terminal for government bond pricing. This capability might be quite helpful in unbundling the dataSTREAM service.

- In addition, Autex has some 400 terminals installed in the investment community that could be modified to receive the dataSTREAM information.

- There appear to be many skills that dataSTREAM has in portfolio evaluation analysis and screening that could be used to great advantage to enhance Autex's service.

APPENDIX B: INTERVIEW BASE

APPENDIX B: INTERVIEW BASE

- A total of 475 individuals were invited to attend the dataSTREAM presentation in New York in early November. Names were selected from:

  - The Money Market Directory.

  - The Directory of Financial Analysts.

  - The Investment Dealers of North America Directory.

- Invitations were mailed to decision makers dealing with foreign securities as well as users of Compustat data covering U.S. companies.

- The cities covered included New York (including the metropolitan area); Hartford, Connecticut; Boston, Massachusetts, and Philadelphia, Pennsylvania.

- Telephone contact was then made with 288 persons who did not answer the invitation, and confirming calls were made to 57 who responded with a reply card.

- Two people from outside New York attended the presentation, both of whom were from Boston.

- The distribution of the mailing of invitations is shown in Exhibit B-1.

EXHIBIT B-1

DISTRIBUTION OF INVITATIONS TO dataSTREAM SEMINARS

DIRECTORS OF RESEARCH	226
FOREIGN SECURITIES ANALYST/ PORTFOLIO MANAGERS	118
BOND TRADERS BROKER/DEALERS	34
CORPORATE FINANCE (COMPUSTAT USERS)	24
OTHER	73
TOTAL	475

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- Based on responses to the questionnaires completed during the dataSTREAM presentations, areas of interest or specialty are indicated in Exhibit B-2.

  - Because some indicated more than one of the choices, the total does not equal the number of completed questionnaires.

- Further indication of the areas of specialization or interest of those in attendance is shown by their designation of those applications that would be most heavily used. The applications mentioned are listed in descending order in Exhibt B-3.

EXHIBIT B-2

DISTRIBUTION OF SPECIALTY AREAS FOR RESPONDENTS (SEMINAR ATTENDEES)

SPECIALTY	NUMBER INDICATED
EQUITIES	22
EUROBONDS	12
BONDS	11
TOTAL	45

EXHIIT B-3

ATTENDEES' APPLICATION INTEREST AREAS

APPLICATION AREA	NUMBER OF MENTIONS
FINANCIAL ANALYSIS OF NON-U.S. COMPANIES	22
PORTFOLIO EVALUATION	15
BOND ANALYSIS	9
MERGERS AND ACQUISITIONS	8
FINANCIAL ANALYSIS OF U.S. COMPANIES	3

APPENDIX C: QUESTIONNAIRE

CATALOG NO. YDUS[ ][ ]

dataSTREAM SEMINAR QUESTIONNAIRE

1. Are you presently involved in investing or advising on investments in the following countries? (Please check appropriate column.)

		HEAVILY	MODERATELY	NOT AT ALL
a.	United Kingdom	_____	_____	_____
b.	Germany	_____	_____	_____
c.	Holland	_____	_____	_____
d.	Japan	_____	_____	_____
e.	Hong Kong	_____	_____	_____
f.	Other (Specify)	_____	_____	_____
	_____	_____	_____	_____

2. a. Approximately what percentage of your funds (or activities) are committed to foreign securities? _____%

   b. Where is the heaviest concentration?
   Equities _____% Bonds _____%
   EuroBonds _____%

3. Is this activity (check one or indicate growth percent):
   Increasing _____% Decreasing _____%
   Static _____%

4. In your opinion, what percentage of your activity will be outside the United States by 1985? _____%

5. What current automated information sources are you presently using for:

		SOURCE
a.	International Equities	
b.	International Bonds	
c.	EuroBonds	
d.	U.S. Securities	

6. After viewing this presentation, do you feel the dataSTREAM service is better than, comparable to, or inferior to your existing information source for: (Please check appropriate column.)

		BETTER	COMPARABLE	INFERIOR
a.	International Equities			
b.	International Bonds			
c.	EuroBonds			
d.	U.S. Securities			

7. Are there any information needs not presently offered by dataSTREAM that you feel are desirable?

8. Please indicate the degree of importance you attach to the following features:

	VERY IMPORTANT	MODERATELY IMPORTANT	LEAST IMPORTANT
a. Ease Of Use			
b. Breadth Of Coverage			
c. Cost Effectiveness			
d. Timeliness			
e. Reliability			
f. Local Service			
g. Other (Specify)			
_____			

9. Of the dataSTREAM features described, which one or ones do you feel would be most heavily used?

a. Financial analysis of non-U.S. companies. _____
b. Financial analysis of U.S. companies. _____
c. Bond analysis and trading. _____
d. Portfolio evaluation. _____
e. Corporate finance screening for mergers and acquisitions. _____
f. Other (Specify)_____ _____

10. What changes, if any, do you feel are deemed necessary for the dataSTREAM service.

a. Additional countries?
YES ___ NO ___ IF YES, WHICH _____
b. U.S. data (2,000 companies, five years sufficient)?
YES ___ NO ___ IF YES, WHICH _____
c. Pricing on non-U.S. securities sufficient?
YES ___ NO ___ IF YES, WHICH _____

11. What pricing level and structure do you feel is most acceptable for this service?

    a. Structure:

       Flat fee _____

       Flat fee and usage _____

       Transaction only _____

    b. Cost:

       What total yearly expenditure do you feel is reasonable for this service? $_____

12. Within your area of expertise, do you feel:

    a. The time is ripe for dataSTREAM, Ltd. to:

       Market its service in the United States?

       YES ____ NO ____

    b. The dataSTREAM service is sufficiently superior to present sources that:

       The U.S. financial community will subscribe once it has been properly informed.

       YES ____ NO ____

NAME: _____

COMPANY: _____

TELEPHONE: _____

We at INPUT and dataSTREAM thank you for your interest and participation.